

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 /105 W
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P R 310825Z DEC 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 5823

DEPT OF TREASURY WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

US MISSION OECD PARIS

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PASS FEDERAL RESERVE, LABOR AND EXIM BANK

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJ: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF DEC 24-31

1. SUMMARY: INDUSTRIAL PRODUCTION AND SHIPMENTS FOR NOV
GIVE FURTHER EVIDENCE THAT RECOVERY OF MANUFACTURING SECTOR
IS SPUTTERING. NEVERTHELESS, REAL GNP WILL PROBABLY INCREASE
2.0 PERCENT IN CY 1975 AND PERHAPS 4.5 PERCENT IN CY 1976
ACCORDING TO FINATT ESTIMATE. CONSUMER PRICES DROPPED FOR
SECOND CONSECUTIVE MONTH IN WAKE OF ECONOMIC SLACK. BUSINESS
AND GOVT SECTOR INVESTMENTS REMAIN AT LOW LEVELS ACCORDING TO
NOV FIGURES. GOJ APPEARS TO BE LOOKING INCREASINGLY TOWARD
FOREIGN MARKETS TO PROVIDE JAPAN WITH FURTHER ECONOMIC
STIMULUS. END SUMMARY.

2. BOTH INDUSTRIAL PRODUCTION ND SHIPMENTS FELL IN
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NOV, GIVING FURTHER EVIDENCE THAT RECOVERY APPEARS TO

BE STALLING IN MANUFACTURING SECTOR. INDEX OF MINING AND MANUFACTURING PRODUCTION (JEI 212) FELL 1.1 PERCENT FROM PRIOR MONTH AND PRODUCERS' SHIPMENTS (JEI 239) DECLINED 1.4 PERCENT. INVENTORIES TO SHIPMENTS RATIO (JEI 253) ROSE 1.9 PERCENT FROM OCT LEVEL. LEADING NOV DECLINE IN OUTPUT WAS 3.8 PERCENT DROP IN TRANSPORTATION EQUIPMENT (EXCLUDING RAILWAY EQUIPMENT AND SHIPS DECLINE WAS EVEN LARGER 5.8 PERCENT). NON-FERROUS METALS FELL 3.8 PERCENT AND SMALLER DECLINES WERE REGISTERED FOR SHIPS AND OFFICE EQUIPMENT. AFTER BRISK RISE IN FIRST HALF OF 1975, OUTPUT AND SHIPMENTS HAVE TURNED STAGNANT. NOV INDEX OF MINING AND MANUFACTURING PRODUCTION S BELOW JULY FIGURE OF 112.9 WHILE INDEX OF PRODUCERS' SHIPMENTS IS ALSO BELOW JULY LEVEL OF 117.5. PRODUCTION, SHIPMENTS, AND INVENTORY TO SHIPMENTS RATIO (INDEX, 1970-100: PCT CH FROM PRIOR MO IN PARENTHESES)

	MIN & MFG PRODUCERS' PRODUCTION	INV TO SHIPMENTS RATIO
SEPT	113.0 (1.6)	116.3 (1.4)
OCT	113.7 (0.6)	118.5 (1.9)
NOV	112.5 (1-1.1)	116.8 (-1.4)

3. GROWTH PROSPECTS

REAL GNP WILL PROBABLY INCREASE 2.0 PERCENT IN 1975: NEXT YEAR IT MAY ADVANCE BY 4.5 PERCENT BUT THAT DEPENDS ON THE STRENGTH OF CONSUMER SPENDING AND SOME REVIVAL IN 1972, 1974 AND 1975. (BUT, OF COURSE, THERE HAS BEEN NO FUNDAMENTAL CHANE IN THE LEVEL OF EMPLOYMENT/ UNEMPLOYMENT, BUSINESS PROFITS, ETC.) AS RESULT, FIGURES FOR JAPAN IN THE OECD ECONOMIC OUTLOOK ISSUED DEC 18 ARE ALREADY OUT OF DATE. REVISED FIGURES ARE AS FOLLOWS:

	GROWTH IN REAL GNP	
	PERCENTAGE CHANGE, SEAS. ADJ. AT ANNUAL RATES	UNREVISED REVISED
CY 1972	8.7	9.1
73	10.2	9.9
74	-1.8	-1.2
75 EST	-	2.0
76 FORECAST	-	4.5

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1974 (2)	3.1	3.7
1975 (1)	-0.5	0.8
(2) EST		3.25

THIS EXCEPTIONALLY SEVERE RECESSION IS DUE TO THE VIRTUAL COLLAPSE OF PLANT AND EQUIPMENT SPENDING (WHICH HAS SHRUNK 26 PERCENT FROM HE FOURTH QUARTER 1973 PEAK TO A LEVEL LAST REACHED IN MID-1970). THIS HAS REDUCED EMPLOYMENT AND INCOMES, LEADING TO A MORE

CAUTIOUS ADVANCE IN CONSUMER EXPENDITURE. NEVERTHELESS, AS A RESULT OF SOME RECOVERY THIS YEAR, THIRD QUARTER REAL GNP WAS 1.2 PERCENT ABOVE THE PREVIOUS PEAK. THE TABLE BELOW INDICATES THAT THIS IS DUE TO A LARGE EXPANSION IN GOVT SECTOR EXPENDITURE, NET EXPORTS, AND CONSUMER SPENDING. NO ONE EXPECTS A QUICK REVIVAL IN PRIVATE INVESTMENT IN VIEW OF (1) EXCESS CAPACITY IN HEAVY INDUSTRY, (2) PROSPECTS FOR COMPARATIVELY SLOW GROWTH UNDER THE GOVT'S NEW 5-YEAR PLAN, AND (3) WEAK FINANCIAL POSITION OF BUSINESS. THERE IS SOME HOPE THAT INVESTMENT IN NON-MANUFACTURING, ESPECIALLY PUBLIC UTILITIES, WILL SOON PICK UP. YET FOR CY 1976 THE RISE IN GROSS NATIONAL EXPENDITURE WILL HAVE TO COME PRIMARILY FROM THE OTHER SECTORS. FINATT CONSIDERS 4-1/2 PERCENT REAL GROWTH RATE AS QUITE POSSIBLE IF THERE IS MODERATE (4.3 PERCENT) RISE IN REAL CONSUMPTION AND AN 8 PERCENT RISE IN REAL GOVT SECTOR EXPENDITURE. OUTCOME COULD BE ALTERED IF CONSUMPTION ROSE MORE RAPIDLY (MORE SLOWLY) AND NET EXPORTS IN REAL TERMS IMPROVES AS GOJ HOPES. FORECAST OF 4-1/2 PERCENT IS LITTLE DIFFERENT FROM MOST RECENT OECD PROJECTION AND THAT OF THE JAPANESE ECONOMIC RESEARCH CENTER (JERC). CHANGES IN REAL GNP EXPENDITURE FROM PEAK IV 73 TO PRESENT III 75

ITEM	DIST OF CHANGE PERCENT CHANGE	
GNP (UP YEN 1,094.4 BIL)	100PERCENT	1.2
CONSUMPTION	188PCT	4.3
PRIVATE INVESTMENT	-542	-20.9
(P&E)	(-464)	(-26.2)
GOVT SECTOR EXPENDITURE	197	14.1
NET FOREIGN BAL	257	1,900

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INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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SIL-01 PA-02 PRS-01 /105 W

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P R 310825Z DEC 75
FM AMEMBASSY TOKYO
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DEPT OF TREASURY WASHDC PRIORITY
INFO AMEMBASSY BONN
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4. NEW ORDERS FOR BOTH PUBLIC AND PRIVATE CONSTRUCTION
ROSE SHARPLY IN NOV. WHILE STRONG 19.4 PERCENT RISE
BROUGHT ORDERS FOR GOVT/PUBLIC CONSTRUCTION (JEI 324)
TO A HIGH FOR THIS YEAR, ORDERS FOR PRIVATE CONSTRUCTION
(JEI 325) REMAINED 11 PERCENT BELOW JAN-JUNE 175 AVER-
AGE DESPITE 9.2 PERCENT GAIN IN NOV. BOTH GOVT/PUBLIC
AND PRIVATE CONSTRUCTION ORDERS HAVE EXPERIENCED LARGE
MONTH-TO-MONTH FLUCTUATIONS SINCE JUNE. WHILE
NOV INCREASES MAY SIGNAL EARLY IMPACT OF GOJ REFLATION
EFFORT, CONTINUING RISES IN NEXT FEW MONTHS
WOULD BE NEEDED TO JUSTIFY ANY CONCLUSION THAT INVESTMENT
OUTLOOK IS BRIGHTENING.
NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED
(BIL YEN, PCT CH FROM PRIOR MONTH IN PARENTHESES)

	GOVT/PUBLIC	PRIVATE
SEPT	226.9(16.1)	266.3 (-1.1)
OCT	204.5(-9.9)	210.9(-20.8)
NOV	244.1(19.4)	230.3 (9.2)

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5. CONSUMER PRICE INDEX FOR TOKYO (JEI 422) DECLINED
0.3 PERCENT IN DEC FOR SECOND CONSECUTIVE MONTHLY DROP.
DECLINE FROM NOV LEVEL BROUGHT YEAR-OVER YEAR RISE IN
TOKYO CPI DOWN TO 8.0 PERCENT. DECLINE IN DEC WAS
SPURRED BY SHARP DROPS IN PRICES OF SEASONAL FRUITS AND
VEGETABLES, WHICH FELL 12.9 PERCENT AND 10.7 PERCENT
BELOW PRIOR MONTH FIGURES, RESPECTIVELY. ALTHOUGH RAILWAY
FARES WERE HIKED 32 PERCENT (IN EFFORT TO LIMIT BALLON-
ING NATIONAL RAILWAY'S DEFICIT), STABILITY IN PRICES FOR
CLOTHING, MEATS, AND OTHER HOUSEHOLD ITEMS IS STRENGTHEN-
ING OPTIMISM AMONG GOJ OFFICIALS THAT INFLATION IS NOW
WELL IN HAND.
INDEX (1970-100) PCT CH FROM PRIOR MONTH
OCT 177.6 1.7
NOV 176.4 -0.6
DEC 175.8 -0.3

6. EXPORT AND IMPORT VOLUMES (S.A.) FELL SHARPLY IN NOV AFTER REGISTERING INCREASES IN THE TWO PREVIOUS MONTHS. DESPITE THE NOV DECLINE, EXPORT VOLUME (JEI 45) REMAINED ABOVE AVERAGE LEVELS RECORDED FOR EACH OF FIRST THREE QUARTERS OF 1975. HOWEVER, NOV IMPORT VOLUME (JEI 49) WAS NOT ONLY LOWEST FOR ANY MONTH THIS YEAR AND, IN FACT, THE LOWEST SINCE JULY 1972. QUANTUM INDICES OF EXPORTS AND IMPORTS, S.A., 1970-100 (PCT CH FROM PRIOR MONTH IN PARENTHESES)

	EXPORTS	IMPORTS
SEPT	161.1 (4.8)	130.7 (10.4)
OCT	170.3 (5.7)	131.1 (0.3)
NOV	160.3 (-5.9)	115.3 (-12.1)

FOLLOWING TABLE SHOWS QUARTERLY AVERAGES OF EXPORT AND IMPORT VOLUMES FOR 1975. IN LAST TWO MONTHS EXPORT VOLUME HAS NEARLY REGAINED LEVEL OF OCT-DEC 1974 PEAK OF 164.8 WHEREAS IMPORT VOLUME IS STILL MORE THAN 20 PERCENT BELOW OCT-DEC 1973 PEAK OF 153.4.

	EXPORTS	IMPORTS
1975 JAN-MAR	157.8	122.5
APR-JUNE	152.9	117.7
JULY-SEPT	156.6	125.4
OCT-NOV	163.6	120.6

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7. EXPORT PROMOTION MEASURES

MITI IS OPTIMISTIC ABOUT EXPORT PROSPECTS OF INDUSTRIAL PLANTS IN JFY 19766 ACCORDING TO PRESS REPORTS. AT MINISTERIAL MEETING DEC 30 MOF REPORTEDLY APPROVED BUDGET REQUESTS FOR EXPORTS PROMOTION MEASURES. THESE INCLUDE YEN 586 BIL FOR LONG-TERM EXPORT CREDITS FOR JAPAN EXPORT-IMPORT BANK (AN 81 PERCENT INCREASE OVER CURRENT FJY 1975), REDUCTION IN JX-M CREDIT PARTICIPATION FROM PRESENT 80 TO 70 PERCENT, LOWERING OF JX-M INTEREST RATES (BY 0.2-0.3 PERCENT ACCORDING TO ONE REPORT BUT POSSIBLY BY A MAXIMUM OF 1 PERCENT ACCORD- INT TO ANOTHER), AND INCREASING CEILING FOR EXPORT INSUR- ANCE TO YEN 4,500 BIL FROM YEN 3,100 BIL. JAPAN X-M BANK'S LAST ANNUAL REPORT INDICATES EXPORT CREDIT COMMIT- MENTS AMOUNTED TO YEN 266 BIL IN JFY 1974 AND GROSS DIS- BURSEMENTS WERE YEN 255 BIL (EQUIVALENT TO 5.9 AND 4.2 PERCENT RESPECTIVELY OF JAPAN'S TOTAL CUSTOMS EXPORTS IN JFY 1974). EMBASSY NOTES THAT SO FAR THIS YEAR (APRIL- OCT) EXPORT CREDIT COMMITMENTS HAVE AMOUNTED TO YEN 266.5 BIL (EQUIVALENT TO 6.5 PERCENT OF JAPAN'S CUSTOMS EXPORTS) UP ALMOST 100 PERCENT OVER SAME PERIOD YEAR AGO. ACCORD- ING TO PRESS REPORTS MOF ALSO AGREED TO STUDY FEASIBILITY OF SUBSIDY AND PLANT EXPORT LOSS RESERVE SYSTEM (TOKYO 14794 AND PREVIOUS) TO FACILITATE JAPANESE PARTI-

CIPATION IN FOREIGN LARGE-SCALE INDUSTRIAL PROJECTS. MITI
REPORTEDLY ESTIMATES EXPORTS OF HEAVY INDUSTRIAL MACHINERY
WILL AMOUNT TO \$6 BIL IN JFY 1975, AND INCREASE TO ABOUT
\$12 BIL NEXT YEAR. ITI MIN KOMOTO HASURGED JAPAN PLANT
MACHINERY EXPORT ASSN TO MAKE UTMOST EFFORT TO EXPAND
ITS EXPORTS NEXT YEAR AND WITH INCREASED BUDGET JETRO
EXPECTED TO MAKE SIMILAR EFFORT. EMBASSY WILL SEEK CLARI-
FICATION OF PROMOTION MEASURES WHEN MINISTRIES REOPEN
FOLLOWING NEW YEAR HOLIDAY SEASON.
HODGSON

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